

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 AID-05 CIAE-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02
LAB-04 SIL-01 OMB-01 PA-02 NSC-05 SS-15 STR-07
CEA-01 /131 W
-----069293 261837Z /50

P R 261757Z JUL 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 8552
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
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USEEC ALSO FOR EMBASSY
USOECN ALSO FOR EMBASSY
USMTN

DEPARTMENT PASS FEDERAL RESERVE BOARD; TREASURY FOR
DONALD E. SYVRUD, OASIA

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD JULY 20 - 26

SUMMARY: M1 DECLINED BY 0.4 PERCENT IN THE BANKING MONTH
ENDING JUNE 21, WHILE STERLING M3 AND TOTAL M3 BOTH ROSE
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BY 0.3 PERCENT. DOMESTIC CREDIT EXPANSION FOR THE SAME
PERIOD, STOOD AT 337 MILLION POUNDS, FAR SMALLER THAN IN
RECENT MONTHS. PRELIMINARY ESTIMATES SHOW CONSUMER EX-
PENDITURE IN THE SECOND QUARTER INCREASED BY 0.35 PERCENT,
THOUGH FACTORS TEND TO INDICATE A LATER UPWARD REVISION.
THE GOVERNMENT INTENDS TO INTRODUCE LEGISLATION TO TIGHT-
EN THE SUPERVISION OF BANKS. THE GILT MARKET ADVANCED

DURING THE WEEK WITH SUBSTANTIAL TAP SALES. STERLING STRENGTHENED DURING MOST OF THE WEEK ON DOLLAR WEAKNESS, BEFORE WEDNESDAY'S REPORT OF GOOD U.S. TRADE FIGURES ENGENDERED A RETREAT. END SUMMARY.

1. DURING THE FIVE-WEEK BANKING MONTH ENDING JUNE 21, M1 FELL BY 0.4 PERCENT, REFLECTING A VERY LARGE DROP IN INTEREST-BEARING SIGHT DEPOSITS. IT IS POSSIBLE THAT THIS REFLECTS THE RESTRICTION THAT THE CORSET PLACES ON THE GROWTH OF INTEREST-BEARING ELIGIBLE LIABILITIES. IN THE SAME PERIOD, BOTH STERLING M3 AND TOTAL M3 ROSE BY 0.3 PERCENT (ALL SEASONALLY ADJUSTED).

DOMESTIC CREDIT EXPANSION, S.A. (DCE) IN THE JUNE BANKING MONTH STOOD AT 337 MILLION POUNDS (ABOUT ONE-QUARTER THE EXPANSION OF THE PRECEDING MONTH). THE INCREASE IN STERLING LENDING TO THE PRIVATE SECTOR CONTINUED HIGH ALTHOUGH IT WAS 200 MILLION POUNDS LESS THAN IN MAY. THERE WERE ALSO VERY LARGE PURCHASES OF GILT-EDGED STOCKS BY THE GENERAL PUBLIC, FOLLOWING THE MEASURES ANNOUNCED ON JUNE 8, WHICH CONSIDERABLY OUTWEIGHED THE PUBLIC SECTOR BORROWING REQUIREMENT THIS MONTH. UNLIKE THE LARGE INCREASES OF THE PAST TWO MONTHS, THERE WAS ONLY A SMALL INCREASE IN EXTERNAL AND FOREIGN CURRENCY FINANCE. THE BANKING STATISTICS MAY BE SUMMARIZED AS FOLLOWS:

(MILLIONS OF POUNDS, SEASONALLY ADJUSTED)

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	MAY 17	JUNE 21	
M1	23,840	23,750	
STERLING M3	47,200	47,350	
TOTAL M3	52,200	52,370	
PUBLIC SECTOR BORROWING REQUIREMENT			
NET OF PUBLIC SECTOR DEBT SALES			
TO THE NON-BANK PRIVATE SECTOR	333	- 364	
STERLING LENDING TO PRIVATE SECTOR	755	557	
BANK LENDING IN STERLING OVERSEAS	36	144	
DCE	L,124	337	
DECREASE IN EXTERNAL AND FOREIGN			
FINANCE	- 612	- 86	
DECREASE IN NON-DEPOSIT LIABILITIES	- 102	- 92	
INCREASE IN STERLING M3	410	159	

THE PROVISIONAL ESTIMATES OF THE SEASONAL ADJUSTMENT FACTORS TO BE USED IN THE STATISTICS FOR THE BANKING MONTH ENDING MID-JULY 1978 ARE:

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P R 261757Z JUL 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 8553
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
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(MILLIONS OF POUNDS)

M1	350	
OF WHICH NOTES AND COINS	190	
PRIVATE SECTOR STERLING		
SIGHT DEPOSITS	160	
STERLING M3	420	
BANK LENDING TO THE PRIVATE		
SECTOR IN STERLING	450	

THE SEASONALLY ADJUSTED CHANGE IN THE MONEY STOCK IS OBTAINED BY SUBTRACTING THE SEASONAL MOVEMENT FROM THE UNADJUSTED INCREASE.

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2. CONSUMER EXPENDITURE FOR THE SECOND QUARTER HAS BEEN PRELIMINARILY ESTIMATED AT 9.115 BILLION POUNDS, AN INCREASE OF 0.35 PERCENT FROM THE FIRST QUARTER FIGURE. WITH REGARD TO THE SECOND QUARTER FIGURE, IT SHOULD BE EMPHASIZED THAT THIS ESTIMATE IS BASED ON INCOMPLETE DATA AND THAT THE EXPECTATION IS THAT THIS FIGURE WILL BE REVISED BY AT LEAST THE AVERAGE PAST ERROR OF 35 MILLION POUNDS. THE RECENT SURGE IN RETAIL SALES VOLUME (FIGURES FOR THE SECOND QUARTER SHOWED A 1.5 PERCENT GROWTH FROM THE FIRST QUARTER) DOES NOT SEEM FULLY TO BE REFLECTED IN THE CONSUMER DATA. THIS MAY PRESAGE AN UPWARD ADJUSTMENT AS MORE DETAILED FIGURES BECOME AVAILABLE.

WITH THE PRELIMINARY SECOND QUARTER FIGURES, IT APPEARS THAT CONSUMER EXPENDITURE ROSE AT AN ANNUAL RATE OF ABOUT 5.5 PERCENT BETWEEN THE FIRST HALF OF 1978 AND THE SECOND HALF OF 1977. WITH TAX REBATES OCCURRING IN BOTH THE THIRD AND FOURTH QUARTERS AND REAL PRETAX EARNINGS LIKELY TO CONTINUE RISING AT ANNUALIZED RATES OF 4-5 PERCENT, REAL CONSUMER SPENDING OVER THE REMAINDER OF THE YEAR MAY WELL CONTINUE TO RISE AT A SUBSTANTIAL RATE.

CONSUMERS' EXPENDITURE

AT 1970 PRICES - SEASONALLY ADJUSTED

PERCENT CHANGE

POUNDS BILLION FROM 12 MONTHS EARLIER

1977-QI	8.758	- 0.6
QII	8.639	- 1.8
QIII	8.829	- 0.6
QIV	8.890	- 0.4
1978-QI	9.084	3.7
QII	(9.115) (FIRST	5.5
	PRELIMINARY ESTIMATE)	

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3. THE GOVERNMENT IS PROPOSING LEGISLATION TO TIGHTEN SUPERVISION OF THE BANKING SYSTEM. THIS WILL INTRODUCE A LICENSING SYSTEM FOR DEPOSIT-TAKING INSTITUTIONS, CREATE A DEPOSIT PROTECTION FUND AND CONFIRM THE SUPERVISORY AUTHORITY OF THE BANK OF ENGLAND. SOME SIX OR SEVEN HUNDRED INSTITUTIONS WILL COME UNDER THE BANK'S SUPERVISION, ALTHOUGH BUILDING SOCIETIES ARE EXEMPTED. SEVENTY-FIVE PERCENT OF THE FIRST 10,000 POUNDS OF A DEPOSIT WILL BE INSURED; THE LIMITED COVERAGE DESIGNED TO ENCOURAGE DEPOSITORS TO EXERCISE PRUDENCE IN MANAGING THEIR FUNDS.

4. FINANCIAL MARKETS. SHORTAGES IN THE MONEY MARKET PUT PRESSURES ON SHORT-TERM MONEY MARKET RATES THROUGH FRIDAY. OVER THIS PERIOD, THE BANK OF ENGLAND MADE SUBSTANTIAL ADVANCES TO THE DISCOUNT HOUSES, AND, FACED

WITH INCREASED SHORTAGES OF TREASURY BILLS IN THE MARKET, READILY DISCOUNTED OTHER TYPES OF PAPER. BY MONDAY, THESE PRESSURES HAD EASED, AND INTEREST RATES BEGAN TO FALL.

DESPITE THE EARLY PRESSURE IN THE MONEY MARKET, OR PERHAPS CONTRIBUTING TO IT, GILT PRICES ADVANCED THROUGH TUESDAY. THE LONG TAP, THE WQW PERCENT EXCHEQUER 2013-2017, WAS EXHAUSTED MONDAY. ONE BILLION POUNDS (NOMINAL VALUE) OF THE PARTIALLY PAID STOCK WERE ISSUED JUNE 15. ON TUESDAY, THE GOVERNMENT BROKER SOLD SOME OF THE MEDIUM TAP, THE 10 PERCENT EXCHEQUER 1983. 900 MILLION POUNDS OF THE MEDIUM TAP WERE ISSUED PARTIALLY PAID ON JUNE 16. MARKET SOURCES ESTIMATE HOWEVER THAT WHEREAS PERHAPS 200 MILLION POUNDS OF THE LONG TAP WERE SOLD THIS WEEK AND 200-300 MILLION THE PRECEDING WEEK, THE GOVERNMENT BROKER SOLD LESS THAN 30 MILLION OF THE SHORT.

5. THROUGH MOST OF THE WEEK FOREIGN EXCHANGE MARKET MOVEMENTS WERE AGAIN DOMINATED BY WEAKNESS IN THE DOLLAR. THE POUND STRENGTHENED IN THE WEEK THROUGH MONDAY FINDING UNCLASSIFIED

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TYPICALLY STRONG DEMAND FROM NEW YORK LATE IN THE TRADING DAY. BY TUESDAY, PRESSURE ON ALL DOLLAR RATES, EXCEPT THE YEN, HAD MODERATED. MARKET SOURCES INDICATED THAT WITH THE MARKET'S REASSESSMENT OF THE BONN SUMMIT AND RE-

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CEA-01 /131 W

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P R 261757Z JUL 78

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 8554

TREASURY DEPT WASHDC PRIORITY
 INFO AMEMBASSY BONN
 AMEMBASSY BRUSSELS
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NEWED CONCERN OVER FUNDAMENTAL PROBLEMS IN THE U.S. EX-
 TERNAL ACCOUNTS, BAD NEWS COULD FIND RECEPTIVE GROUND.
 THEY FELT THE NEW STORY THAT OPEC MIGHT MOVE TO PRICING
 OIL IN A CURRENCY BASKET RATHER THAN THE DOLLAR, THOUGH
 OF LIMITED INTRINSIC SIGNIFICANCE, TRIGGERED RENEWED
 PRESSURE. THE MARKET ACHIEVED A LULL ON WEDNESDAY MORN-
 ING ON PROFIT-TAKING, EXCEPT FOR THE YEN. WEDNESDAY
 AFTERNOON, FOLLOWING THE RELEASE OF A U.S. TRADE DEFICIT
 THAT WAS MUCH SMALLER THAN EECTED, SAW A SHARP RE-
 BOUND OF THE DOLLAR AGAINST ALL CURRENCIES SAVE THE YEN.

MARKET SOURCES NOTE THAT OVER THE WEEK STERLING IM-
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PROVED AGAINST ALL CURRENCIES. THEY BELIEVE THIS RE-
 FLECTS IN PART BUNDESBANK INTERVENTION WHICH IN CAPPING
 THE DM RATE ENCOURAGED PURCHASES OF STERLING. AS A RE-
 SULT, PROFIT-TAKING ON WEDNESDAY PULLED STERLING DOWN
 MORE THAN OTHER CURRENCIES. FORWARD RATES FELL SIGNIFI-
 CANTLY OVER THE WEEK, SOURCES ATTRIBUTING THE FALL TO THE
 EXPECTATION OF FURTHER FALLS IN MONEY MARKET INTEREST
 RATES. A RUMOR THAT MLR MAY BE REDUCED 1/2 PERCENT THIS
 WEEK IS FREQUENTLY CITED. SOME OF THE FALL WAS REVERSED
 HOWEVER AS STERLING EASED AGAINST THE DOLLAR IN LATE
 WEDNESDAY TRADING.

6. EXCHANGE RATE AND GOLD EFFECTIVE

EXCHANGE RATE			
EXCHANGE (DEC. 1971		GOLD	
DATE	RATE (\$) EQUALS 100)		
7/19	1.8950	62.2	185-7/8
7/20	1.9040	62.5	189-1/8
7/21	1.9110	62.7	191-7/8
7/24	1.9275	63.0	195-1/8
7/25	1.9265	62.8	194-3/8

CHANGE 7/18-7/25 UP 0.0430 UP 0.8 UP 9-1/2

7. FORWARD PREMIUM ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
7/19	- 0.57	- 1.35	- 2.45
7/20	- 0.55	- 1.35	- 2.43
7/21	- 0.48	- 1.28	- 2.40
7/24	- 0.48	- 1.13	- 2.15
7/25	- 0.45	- 1.08	- 2.11

CHANGE 7/18-7/25 DN. 0.07 DN. 0.14 DN. 0.31
(ALL FIGURES IN CENTS)

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8. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
7/19	7-5/8	8-7/16	9-1/16
7/20	8-1/8	8-1/2	9-1/16
7/21	8-5/8	8-9/16	9-3/8
7/24	8-1/8	8-9/16	9-1/8
7/25	8-1/8	8-3/4	9-1/16

CHANGE 7/18-7/25 DN. 1/16 UNCHANGED UNCHANGED

9. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST
RATE DIFFERENTIAL

DATE	
7/19	1-15/16
7/20	1-31/32
7/21	1-15/16
7/24	1-3/4
7/25	1-5/8

CHANGE 7/18-7/25 UP 1/8

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10. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
7/19	10-1/4	10-3/16	10-5/32
7/20	10-15/32	10-11/32	10-11/32
7/21	10-9/16	10-5/16	10-1/4
7/24	10-1/2	10-1/4	10-3/8
7/25	10-7/16	10-3/16	10-3/16
CHANGE 7/18-7/25	UP 5/32	UP 1/16	UP 1/16

11. INTERPOLATED REDEMPTION YIELDS OF HIGH COUPON GOVERNMENT SECURITIES

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MENT SECURITIES

DATE	1 MONTH	3 MONTHS	6 MONTHS
7/19	11.62	12.60	12.82
7/20	11.59	12.57	12.79
7/21	11.54	12.56	12.78
7/24	11.44	12.53	12.76
7/25	11.45	12.51	12.75
CHANGE 7/18-7/25	DN WPMWQ	DN 0.11	DN 0.08

12. THE MINIMUM LENDING RATE REMAINED 10 PERCENT AS SET BY THE BANK OF ENGLAND JUNE 8.

13. THE TREASURY BILL RATE FELL 0.0016 PERCENT TO 9.2430 PERCENT AT FRIDAY'S AUCTION, AS THE 300 MILLION POUNDS IN BILLS TENDERED ATTRACTED 545.42 MILLION POUNDS IN BIDS.

THIS WEEK 500 MILLION POUNDS IN BILLS MATURE, AND 300
MILLION POUNDS IN NEW BILLS WILL BE OFFERED.

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Message Attributes

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To: STATE TRSY
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